

# Introduction to Money

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# What IS money?

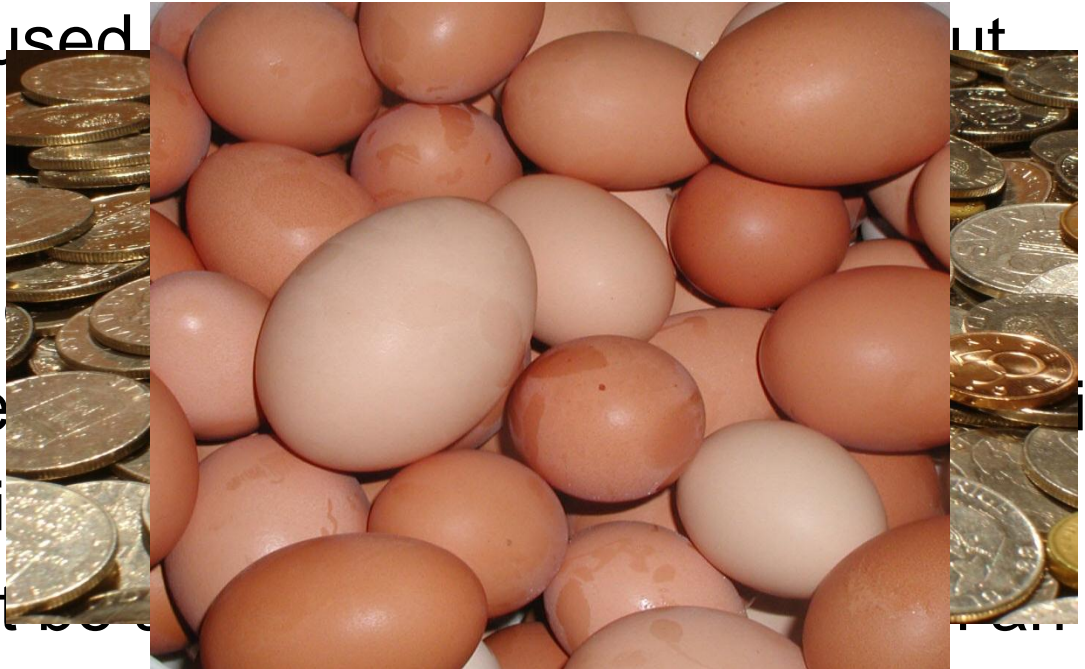
- Anything generally accepted as a medium of exchange



# What makes an item “money?”

## AKA – Characteristics of Money

- **Durability:** can be used without significant damage
- **Portability:** can be carried from one place to another in varying degrees
- **Divisibility:** can be divided into smaller units
- **Stability:** will keep its value over time
- **Acceptability:** must be accepted in the area



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# 3 Basic FUNCTIONS of MONEY

- **1. Provide a medium of exchange**
    - - must be accepted by a large majority of sellers in a community
  - **2. Serve as a standard of value (Unit of Account)**
    - - must be able to measure relative value of goods
    - - Good X can be quoted in a “price” that everyone understands
    - - can help to explain opportunity costs in specific terms
    - - provides a way to compare profits and losses
  - **3. Store its value**
    - - must be able to save (store) and use it later at the same face value (not same REAL value)
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# What makes money valuable?

- **Commodity money:** an item that is naturally valuable and desirable just because of what it is
  - ❑ gold, silver, rubies, gems, diamonds
  - ❑ historically things such as salt, tobacco, elephant hair, and whale's teeth have been used

# What makes money valuable?

- **Representative money:** an item that has value because it “represents” something with value
  - has no value of its own
  - a piece of paper that represents a stack of gold would be an example
  - you could get a bill of credit (piece of paper from the treasury) that represented a certain amount of SPECIE (gold or silver) and pay your debts with that

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# What makes money valuable?

- **Fiat money**: an item that is valuable because of a government decree
  - - US money is this way

# What is the MONEY SUPPLY

## ■ 3 “TYPES” of Money

- M0 – ONLY CASH

- M1 – Transaction money

  - All money in cash or checkable deposits

  - FED tracks this day to day (typically in the \$1.5billion range)

- M2 – Broad Money

  - Everything in M1

  - Adds “time deposits”= savings accounts, money market accounts, and other less liquid accounts (near money)

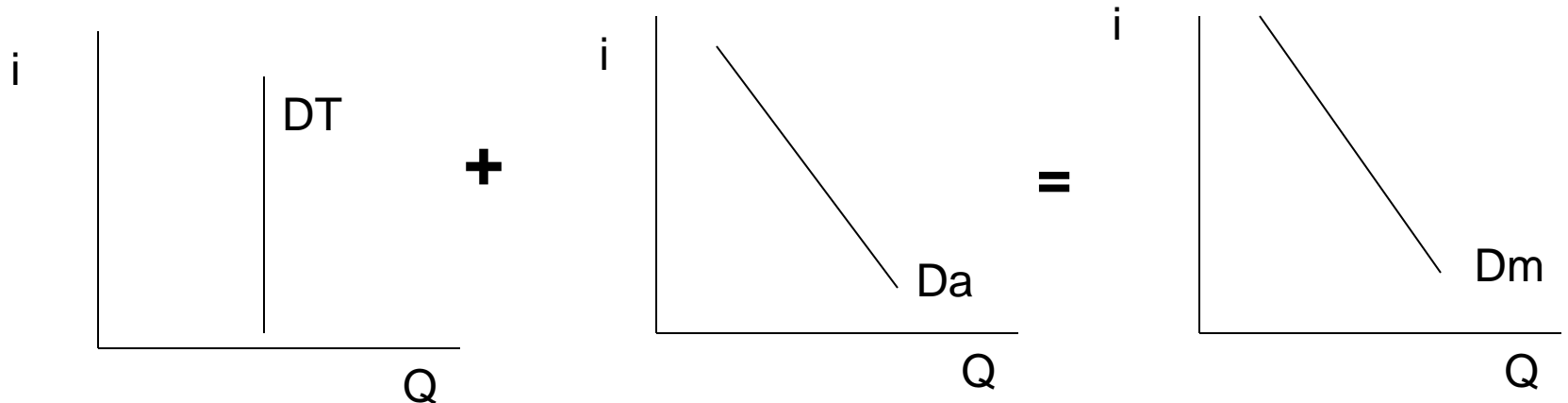
- M3 – “All” Money

  - Everything in M2 plus very large time deposits and repurchase agreements between corporations and/or government agencies



# Money Market

- Supply of money set by FED
- Demand for money determined by adding:
  - Demand for transactions (fairly inelastic)
  - Demand for assets (elastic relating to interest rates)



# Money Market

- Measure of M1 in the economy

